

## Monnet Ispat and Energy Limited

December 03, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities (Term Loan)	2600.00	<b>CARE A-; Stable (Single A Minus; Outlook: Stable)</b>	<b>Assigned</b>
Long Term Bank Facilities (Fund Based-Cash Credit)	400.00	<b>CARE A-; Stable (Single A Minus; Outlook: Stable)</b>	
Long term/Short term Bank Facilities (Non fund based-Bank Guarantee)	500.00	<b>CARE A-; Stable/CARE A2+ (Single A Minus; Outlook: Stable/A Two Plus)</b>	
<b>Total</b>	<b>3500.00 (Rupees Thirty Five Hundred Crore Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Monnet Energy and Ispat Limited (MIEL) derive comfort from resourceful and experienced promoters having significant presence in the Indian steel industry, experience in acquiring and turning around distressed companies, access to JSW Steel Limited's (JSWSL; rated CARE AA; Stable/A1+) suppliers' network. The ratings assigned to the above bank facilities also derive comfort from the letter of Awareness issued by JSWSL to MIEL's Lender. The ratings also factor in the promoters' experience in successfully executing various projects as well as turning around various distressed assets.

The ratings, however, factor in the cyclicity inherent in the steel industry which could make the cash flows of the company volatile. Also, JSWSL's ability to quickly ramp up the MIEL's operations and to improve profitability of the company going forward will be the key rating sensitivities. Further, timely completion of proposed expansion and capex programme to integrate the facilities at MIEL's Raigarh plant to achieve production upto its rated capacity will be crucial.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Support from experienced and resourceful promoters

AION Investment Private II Limited is a wholly owned subsidiary of AION Capital Partners Limited (AION). AION with \$825mn capital is a strategic partnership between Apollo Global Management LLC ("Apollo"), which is one of world's largest alternative asset managers and ICICI Venture Funds Management Company. Apollo is amongst the largest investors in the metals & mining sector globally and specialized in making investments in stressed and distressed assets, buyouts, leveraged buyouts, growth capital, promoter financing, mezzanine, recapitalizations, special situations, special credit opportunities, spin offs, non-performing loans, and financial restructurings.

The JSW group, headed by Mr. Sajjan Jindal, has significant presence in the diversified business segments like steel, energy, infrastructure, cement, ventures and sports. JSWSL, with its steelmaking capacity of 18 mtpa, has considerable presence in the steel industry in India. Further, over the past years, JSWSL has ramped up its capacities in a timely and cost-effective manner to become the leading steelmaker in the private sector in India. Globally, it owns a plate and pipe mill and steel making facility in USA, mining assets in USA, Chile and Mozambique and downstream steel making facility in Italy. The company has shown successful strong track record in implementing greenfield and brownfield project execution as well as turning around distressed assets such as Ispat Industries, Welspun Max Steel, Southern Iron & Steel Co. Ltd. and Vallabh Tinplate. JSWSL has provided a letter of awareness to the lenders of the facilities borrowed by MIEL. Under the control of the consortium of AION and JSW Steel, MIEL is likely to have better market standing with the potential to transact business on better terms as compared to its current business terms.

##### Proposed expansion programme to improve the cash flows

MIEL is proposing to incur a capital expenditure over a period of 3 years from FY19-FY21. The company is planning to expand its product portfolio at Raigarh to create flexibility in the company's product offerings and to insulate the company's business from the vagaries of global volatility related to specific product categories. The mill with new product offering is expected to commence operations from FY21 and will enhance the product portfolio of MIEL further.

The product portfolio expansion capital expenditure shall commence after stabilization of the existing plant facilities. The company shall also incur expenditure to complete the construction of the residual facilities viz. electric arc furnace, slab

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

caster, plate mill and lime kiln at Raigarh Plant. The proposed capital expenditure will remove bottlenecks, integrate the facilities at the Raigarh plant and enable the Raigarh plant to achieve production of finished steel at its existing optimum capacity.

#### **Raw material sourcing arrangements aided by access to JSWSL's supplier network**

MIEL proposes to source its iron ore requirements from Odisha by leveraging JSW Steel's existing relationship with its suppliers from whom JSW Steel sources iron ore annually. MIEL also proposes to source coal for its DRI plant and captive power plant from the open auction by Coal India and imports.

Further, MIEL proposes to source coke either from the Jajpur region (Odisha) or from imports. JSWSL is currently importing coke and MIEL proposes to use JSW Steel's existing relationships with its suppliers for sourcing coke for the Company.

#### **Marketing synergies from MIEL's presence in Eastern India**

MIEL proposes to sell pellets and DRI within a 200 km radius of the Raigarh Plant as there are large numbers of small secondary producers available in the area. The company proposes to sell its products primarily in the Central, North and Eastern parts of India. JSWSL has a PAN India presence with production facilities in the Southern and Western parts of the country. MIEL's strategic presence in the Eastern part of the country will enable the JSW Steel Group to tap the markets in Central, Northern and Eastern parts of India.

#### **Key Rating Weaknesses/Challenges**

##### **Timely ramp up of scale of operations and improvement in profitability**

Going forward, the company's ability to successfully ramp up its scale of operation and to improve profitability in time bound manner would remain crucial. However, JSWSL's experience in running steel plants at high efficiency levels is a significant mitigating factor.

##### **Cyclicality of the steel industry**

Prospects of steel industry are strongly co-related to economic cycles. Demand for steel is sensitive to trends of particular industries, viz. automotive, construction, infrastructure and consumer durables, which are the key consumers of steel products. These key user industries in turn depend on various macroeconomic factors, such as consumer confidence, employment rates, interest rates and inflation rates, etc. in the economies in which they sell their products. When downturns occur in these economies or sectors, steel industry may witness decline in demand.

##### **Prospects**

During FY18, steel production in India grew by 3.14% to 105 mn tonnes and consumption grew by 7.98% to 90.70 mn tonnes. During FY18, domestic steel prices remained buoyant as they rose in the range of 18%-21% on a y-o-y basis on account of growth in domestic consumption and international prices. Besides, higher raw material prices also resulted in rise in steel prices. On a cumulative basis, finished steel output grew by 6% to 53.9 million tonnes during April-September 2018 while consumption rose at a faster pace of 7.8% to 47.7 million tonnes during the period. During the corresponding period last year, production had increased by 2.5% to 50.8 million tonnes and consumption had grown by 7.6% to 44.2 million tonnes y-o-y. *CARE expects the demand for steel from user industries to result in increase in production and is expected to keep the prices firm during 2018-19. Thus, India's steel production is expected to grow by 6%-8% during 2018-19.*

**Analytical approach:** CARE has adopted a standalone approach for analysis of MIEL and the support from JSWSL in the turnaround of MIEL's operations has also been considered.

#### **Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology-Manufacturing Companies](#)

[Rating methodology – Steel Companies](#)

#### **About the Company**

MIEL, incorporated in 1990, is engaged in manufacturing and sale of steel intermediaries e.g., sponge Iron, billets, ferro alloys and & long (rebars) steel products. On July 24, 2018, JSWSL and AION through its special purpose vehicle company i.e. Milloret Steel Limited (MSL) has successfully acquired MIEL under the Insolvency & Bankruptcy Code (IBC) framework of National Company Law Tribunal (NCLT). Post that, MSL has got amalgamated with MIEL. MIEL currently has total

steelmaking capacity of 1 mn tonnes per annum.

**Brief Financials:** None as MIEL has been acquired by the new promoters only in FY19.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating History for last three years:** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**About CARE Ratings:**

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	August 2030	2600.00	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	400.00	CARE A-; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	500.00	CARE A-; Stable / CARE A2+

## Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	2600.00	CARE A-; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	400.00	CARE A-; Stable	-	-	-	-
3.	Non-fund-based - LT/ST-Bank Guarantees	LT/ST	500.00	CARE A-; Stable / CARE A2+	-	-	-	-

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CIN - L67190MH1993PLC071691